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IN THE
Supreme Court of the United States
OCTOBER TERM, 1998

EXXON CORPORATION AND
EXXON CHEMICAL PATENTS, INC.,

Petitioners,

v.

THE DOW CHEMICAL COMPANY,

Respondent.

On Petition for Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF IN OPPOSITION

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RULE 29.6 STATEMENT

Pursuant to Rule 29.6, The Dow Chemical Company hereby states that it has no parent corporation and one nonwholly owned subsidiary that is publicly traded, Mycogen Corporation.

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BRIEF IN OPPOSITION

The petition for *certiorari* rests on two false premises. *First*, the petition assumes that the state-law claim at issue here is no more than a challenge to Exxon's misconduct in the Patent and Trademark Office ("PTO"). As the Federal Circuit emphasized, however, "the tort claim at issue here is not premised upon bad faith misconduct in the PTO, but rather is premised upon bad faith misconduct in the marketplace." Pet. App. 15a. The federal patent laws neither protect nor remedy unfair market practices that involve bad faith threats to enforce an unenforceable patent. Accordingly, state laws that *do* remedy such unprotected conduct in no way conflict with the patent laws and are not preempted. Any contrary approach would give patentholders *carte blanche* to injure their competitors with frivolous and bad faith threats of infringement litigation.

Second, the petition assumes that the decision below "sanctioned a new species of patent-related state law damages litigation." Pet. 7. As the Federal Circuit emphasized, however, there is nothing "new" about the cause of action at issue here. This case involves a garden-variety state-law unfair competition claim. Such claims have an ancient pedigree in the common law, and are entirely consistent with the patent laws. "[T]he law of unfair competition" has "coexisted harmoniously with federal patent protection for almost 200 years." *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 166 (1989). Thus, far from authorizing a "radical *expansion* of patent-related litigation," Pet. 19 (emphasis added), the Federal Circuit simply declined to undertake a radical *rollback* of traditional unfair competition law in cases involving patents. That result is not only consistent with, but compelled by, this Court's settled precedents, and presents no conflict with any other circuit.

COUNTERSTATEMENT OF THE CASE

Exxon and Dow are direct competitors in the manufacture and sale of polymers used for coating wire and cable products. App. 3a. The finished wire and cable products are used to transmit electrical power to residences and businesses.

Exxon obtained a patent for one of its polymers by misrepresenting to the PTO that its polymer was superior to prior art polymers. Exxon knew that prior art polymers, especially those sold by Mitsui, produced the same or even better results. *Id.* at 8a. Indeed, Exxon's inventors had tested the Mitsui polymers and determined that they possessed all of the properties of Exxon's polymer. *See id.* Exxon obtained the disputed '783 patent by intentionally withholding this knowledge from the PTO. *See id.*

Armed with this patent, Exxon began to intimidate Dow's actual and prospective customers. Exxon first sent letters to those customers stating that the '783 patent covered a wide range of polymers, including Dow's. *See id.* at 3a-4a. Exxon followed up with face-to-face meetings in which it threatened

major wire and cable consumers with patent infringement suits if they purchased Dow's polymers. *See id.* at 4a-5a. Exxon's threats succeeded in intimidating Dow's customers, and thereby harmed Dow's business. *See, e.g., id.* at 6a, 10a.

Dow filed this suit in October 1994 to protect its contractual relations and to recover damages for the injury inflicted. The complaint, as amended in June 1996, pleads two claims. Count I seeks a declaration that Dow's polymers do not infringe the '783 patent and that the patent is invalid and unenforceable. *See id.* at 1a, 7a-10a. The complaint explains that Exxon's inequitable conduct during the patent prosecution, including its failure to disclose material prior art to the PTO, renders the patent unenforceable. *See id.* at 8a-10a.

Count II seeks relief, including damages, for Exxon's tortious interference with Dow's actual and prospective contractual relations. *Id.* at 1a, 10a-11a. The complaint explains that Exxon threatened Dow's customers with meritless infringement actions in order to induce them to breach their contracts with Dow or to deter them from entering into such contracts in the first place. *Id.* at 10a-11a. The complaint further alleges that Exxon's infringement allegations "were not made in good faith" because Exxon knew that Dow's polymers did not infringe any valid and enforceable claim of the '783 patent. *Id.* at 11a.

After the discovery process produced substantial material favorable to Dow, Exxon filed a "Statement of Nonliability" giving Dow and its customers full immunity from suit for infringement of the '783 patent. *See* App. 14a-15a. As a result, the District Court (Robinson, J., D. Del.) dismissed Count I: "[T]he Statement of Nonliability is sufficient to protect plaintiff against any reasonable apprehension of suit for any products it currently manufactures or has taken concrete steps to manufacture in the future. Plaintiff has not demonstrated an ongoing controversy. Plaintiff's claims of noninfringement and invalidity, therefore, are not justiciable." Memorandum Opinion (9/20/96) at 6.

The "Statement of Nonliability," of course, did nothing to remedy Dow's lost sales resulting from Exxon's wrongful intimidation of its customers—the subject of Count II. The District Court, however, proceeded to dismiss that count as well, holding that Exxon's "Statement of Nonliability" resolved the entire dispute. *See* Pet. App. 29a-31a. The court characterized Dow's state-law claim as nothing more than a challenge to Exxon's patent, and held that issues of federal patent validity could not be litigated in the context of state-law tort claims. *See id.* at 31a. "[T]he court declines to allow what in essence is a patent trial to proceed in the guise of a business tort trial." *Id.*

The Federal Circuit reversed. The court first explained that state-law claims are preempted only if they "'clas[h] with the objectives of the federal patent laws.'" Pet. App. 9a (quoting *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 480 (1974)). The court then held that none of the policies underlying patent law "are implicated by a state tort remedy for intentional interference with actual and prospective contractual relations in instances where the tortfeasor's threats to sue were based upon infringement of a patent obtained by inequitable conduct." Pet. App. 10a-11a.

In particular, the Federal Circuit rejected Exxon's contention that Dow's state claim would improperly duplicate the federal infringement defense of inequitable conduct in the PTO. The court explained that "the state tort and the federal defense address entirely different wrongs": the state-law tort addresses "bad faith communications" in the marketplace, while the federal defense addresses inequitable conduct in the PTO. Pet. App. 15a-18a. "[B]ecause it requires entirely different elements to establish a *prima facie* state tort action for intentional interference with contractual relations, it plainly is not a preempted alternative or additional state law remedy for inequitable conduct. Rather, it is a long-established independent tort remedy for improprieties in the marketplace." Pet. App. 15a-16a.

Judge Lourie dissented. *See* Pet. App. 21a-26a. Like the District Court, Judge Lourie characterized Dow's state-law claim as "essentially an inequitable conduct claim" that "frustrates federal patent policy by providing damages for inequitable conduct distinct from the remedies established under federal law." Pet. App. 21a-22a, 24a. Judge Lourie acknowledged that tortious interference with contractual relations involved additional elements of marketplace misconduct, but asserted that reliance on those elements "merely masks the real issue" because "[i]t is well-established that a patent owner is entitled to assert its patent against those it believes are infringers." Pet. App. 24a.

The Federal Circuit denied Exxon's petition for rehearing and suggestion for rehearing *en banc*. Three judges (including Judge Michel, the author of the panel opinion) did not participate at the rehearing stage. Two other judges joined a renewed dissent by Judge Lourie. Judge Bryson voted for rehearing. Judge Clevenger (a member of the panel) wrote a brief statement concurring in the denial of rehearing.

REASONS FOR DENYING THE WRIT

THE FEDERAL CIRCUIT CORRECTLY APPLIED SETTLED LAW.

This case involves nothing more than the application of settled law to fact, and the Federal Circuit correctly applied the law. Exxon's petition advances three arguments. *First*, Exxon argues that the federal patent laws broadly preempt any claim alleging inequitable conduct in the PTO, even if that claim *also* alleges bad faith misconduct in the marketplace. *See* Pet. 7-13. *Second*, Exxon argues that the Federal Circuit "ignored" this Court's decision in *Walker Process Equip., Inc. v. Food Mach. & Chem. Corp.*, 382 U.S. 172, 176-77 (1965), by "permitt[ing] a cause of action for damages to proceed based only on inequitable conduct." Pet. 13-16. *Third*, Exxon proclaims that the decision below "creat[es] . . . a new field of patent damages litigation." *Id.* at 17. None of these arguments has merit, and

Exxon identifies no conflict among the circuits on any of these points.[1] Accordingly, the petition should be denied.

A. The Federal Circuit Correctly Held that the Patent Laws Do Not Preempt Unfair Competition Claims Based on Bad Faith Litigation Threats.

The Federal Circuit correctly held that the federal patent laws do not preempt state-law unfair competition claims based on bad faith threats to enforce a patent. The governing legal principles are settled. The background norm is a strong presumption against construing federal statutes to preempt state law. *See, e.g., Cipollone v. Liggett Group, Inc.*, 505 U.S. 504, 516, 518 (1992). Exxon does not contend that the federal patent statutes expressly preempt state law, and indeed those statutes are silent with respect to preemption. *See, e.g., Cover v. Hydramatic Packing Co.*, 83 F.3d 1390, 1393 (Fed. Cir.), *cert. denied*, 117 S. Ct. 183 (1996). The key inquiry in patent preemption cases, then, is whether a particular state cause of action "clashes with the objectives of the federal patent laws." *Kewanee*, 416 U.S. at 480 (internal quotation omitted); *see also Lear, Inc. v. Adkins*, 395 U.S. 653, 673 (1969) ("The decisive

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[1] The Federal Circuit does not have exclusive jurisdiction over patent preemption issues. "[T]he proper reach of the preemptive effect of the federal patent laws in relation to the diverse assortment of trade regulation laws existing in the fifty states is not a matter over which this court has a mandate to unify the law evolved in the regional circuits." *Cable Elec. Prods., Inc. v. Genmark, Inc.*, 770 F.2d 1015, 1033 (Fed. Cir. 1985). As a result, patent preemption issues can be appealed to the regional circuits as well as the Federal Circuit. "In the absence of a patent count below, the appeal of the state action and the associated preemption issue will be resolved in the regional circuit. Thus, the correct application of the preemption principles . . . is a responsibility which is shared between this court and the regional circuits." *Id.*; *see also Hunter Douglas, Inc. v. Harmonic Design, Inc.*, 1998 WL 481072, at *15 (Fed. Cir. Aug. 18, 1998) (following *Cable Electric Products*). As a result, patent preemption issues can and do percolate in the regional circuits. *See, e.g., Summit Mach. Tool Mfg. Corp. v. Victor CNC Sys., Inc.*, 7 F.3d 1434, 1439-42 (9th Cir. 1993) (holding that federal patent laws did not preempt a state-law tortious interference claim).

question is whether overriding federal policies would be significantly frustrated."). Exxon does not argue that the Federal Circuit disregarded the settled principles of conflict preemption, *see* Pet. 8; instead, Exxon argues only that the Federal Circuit "misapplied" those principles, *id.* at 7.

Exxon is wrong. The Federal Circuit correctly held that a state-law unfair competition claim alleging bad faith "interference with prospective and actual contractual relations does not stand as an impermissible obstacle to the accomplishment and execution of the patent laws." Pet. App. 19a; *see also id.* at 7a. As this Court has explained, the patent laws have three fundamental objectives: (1) to stimulate invention, (2) to encourage disclosure of inventions, and (3) to ensure that ideas in the public domain remain in the public domain. *See Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 262 (1979); *Kewanee*, 416 U.S. at 480-81, 484. A state-law claim alleging bad faith interference with contractual relations does not interfere with any of those objectives. Nothing in the patent laws, accordingly, divests States of their traditional police powers to regulate bad faith misconduct in the marketplace. "Given the long history of state common-law and statutory remedies against monopolies and unfair business practices, it is plain that this is an area traditionally regulated by the States." *California v. ARC Am. Corp.*, 490 U.S. 93, 101 (1989); *see also* Pet. App. 19a ("[S]tate law governs the maintenance of orderly contractual relations and this function is not preempted merely because patents and patent issues are presented in the substance of those contracts.").

Exxon nonetheless insists that the state-law cause of action at issue here conflicts with the patent laws because: (1) it would penalize a patentholder for exercising the "right" to notify infringers that they are infringing, thereby diminishing the incentive to invent, Pet. 9, 11-12; and (2) it is "wholly derivative" of the federal inequitable conduct defense to a patent infringement claim, therefore providing an

impermissible state-law remedy for a violation of federal law, Pet. 12-13. Neither argument has merit.

First, there is no basis for Exxon's contention that the decision below "penaliz[es] the exercise of federal patent rights" by imposing liability "for giving federally-required infringement notices." Pet. 3, 11; *see also id.* at 10 n.6. The enforcement of a patent, including notification of infringement and intent to sue, is protected by the federal patent laws *only when done in good faith. See, e.g. Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 710 (Fed. Cir. 1992) (citing cases); *Kaplan v. Helenhart Novelty Corp.*, 182 F.2d 311, 314 (2d Cir. 1950) ("[T]he privilege to try by notice to persuade acquiescence in one's assertions of his rights may not be exercised in bad faith."). The very cases on which Exxon relies emphasize the commonsense distinction between good faith and bad faith enforcement of a patent. *See, e.g., Virginia Panel Corp. v. MAC Panel Co.*, 133 F.3d 860, 870 (Fed. Cir. 1997), *cert. denied*, 67 U.S.L.W. 3013 (Oct. 5, 1998) (No. 97-1879); *United States Galvanizing & Planting Equip. Corp. v. Hanson-Van Winkle-Munning Co.*, 104 F.2d 856, 862 (4th Cir. 1939) ("The rule is well settled, of course, that the sending of notices of infringement to a manufacturer's customer in bad faith and without intention of bringing suit, but solely to injure the manufacturer's business, constitutes a fraudulent invasion of his rights which a court of equity will enjoin.").

The Federal Circuit properly reconciled state and federal law by holding that common-law claims relating to the enforcement of a patent are *not* preempted where (as here) the plaintiff alleges bad faith enforcement. *See* Pet. App. 14a (emphasizing that "[t]he instant case . . . concerns an allegation of bad faith enforcement of a reputedly unenforceable patent"). Far from penalizing federally protected infringement notices, therefore, the decision below penalizes only conduct that is federally unprotected. Indeed, the Federal Circuit recently emphasized precisely this point in reaffirming its holding in this case. *See Hunter Douglas*, 1998 WL 481072, at *20 (explaining that

Dow "alleged the bad faith enforcement of a patent" and thus "the defendant's conduct for which the plaintiff sought relief under state law was neither protected nor governed by federal patent law"); *id.* at *14 ("Importantly, [Dow] alleged the bad faith enforcement of a reputedly unenforceable patent, in that [Exxon] allegedly knew that its patent was unenforceable when it engaged in market misconduct.") (internal quotations omitted).[2] State regulation of conduct that is unprotected by (and, indeed, at odds with) the patent laws can hardly be said to conflict with the objectives of the patent laws.

For that reason, the decision below does not "erode the incentive to invent," Pet. 3, but only the incentive to engage in tortious misconduct in the marketplace. Inventors still have all the reason in the world to advance the progress of science and the useful arts, *see* U.S. Const., art. I, § 8, cl. 8, by lawfully patenting their inventions and discoveries. The only conduct discouraged is the federally unprotected conduct of enforcing a patent in bad faith. In that respect, intentional interference claims are no different from other claims based on improper assertions of patent rights, including liability for treble damages under the antitrust laws and attorneys' fees under the patent laws.

Second, there is no basis for Exxon's assertion that the state-law claim at issue here is indistinguishable from the federal patent-infringement defense of inequitable conduct in the PTO. As the Federal Circuit recognized, the crux of Dow's unfair

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[2] The unanimous Federal Circuit panel in *Hunter Douglas* consisted not only of Judge Clevenger (who was in the majority in this case), but also of Judge Bryson (who dissented from the denial of rehearing *en banc* in this case) and Judge Gajarsa (who did not participate in the rehearing in this case). Thus, any suggestion that the Federal Circuit remains "evenly divided" on the issue presented in this case, Pet. 2, 6, is incorrect. Neither Judge Bryson nor Judge Gajarsa expressed any reservations about the holding in this case as reaffirmed in *Hunter Douglas*, or indicated any reluctance in "appl[ying] the decision in this case as the law of the circuit." Pet. 18.

competition claim is the assertion that Exxon engaged in tortious misconduct in the marketplace by making bad faith litigation threats against Dow's actual and prospective customers. A claim of tortious misconduct *in the marketplace* is logically and legally distinct from a claim of inequitable conduct *in the PTO*. *See* Pet. App. 16a ("The tort occurs not in the PTO, but later in the marketplace."); *id.* at 18a ("[T]he state tort and the federal defense address entirely different wrongs and also provide different forms of relief."). The Federal Circuit took pains to distinguish its earlier decision in *Abbott Labs. v. Brennan*, 952 F.2d 1346 (Fed. Cir. 1991), *cert. denied*, 505 U.S. 1205 (1992), which held that the patent laws preempted state-law claims challenging misconduct in the PTO. *See* Pet. App. 14a-16a. Here, in sharp contrast to *Abbott Labs*, the state-law cause of action contains an "additional element" not required by the federal "inequitable conduct" defense—the element of bad faith interference with contractual relationships. "[B]ecause it requires entirely different elements to establish a *prima facie* state tort action for intentional interference with contractual relations, it plainly is not a preempted alternative or additional state law remedy for inequitable conduct. Rather it is a long-established independent tort remedy for improprieties in the marketplace." App. 15a-16a.

Exxon's argument to the contrary rests entirely on the contention that Dow "conceded" and the District Court held that inequitable conduct is the "sole basis" for Dow's claim. Pet. 4 & n.1, 6 n.2, 12-13. That contention is mere wordplay. Dow's state-law claim relies on Exxon's inequitable conduct in the PTO only as evidence that Exxon knew that its patent was unenforceable, and thus as evidence that Exxon acted in bad faith by threatening Dow's actual and prospective customers with lawsuits for infringement. *See* Pet. App. 17a ("[A]cts before the PTO . . . are merely evidence of a patentee's bad faith in its subsequent contacts with customers."). Reliance upon inequitable conduct as evidence to prove one element of a state-law claim hardly transforms

that entire claim into an inequitable conduct claim. As the Federal Circuit put it, "we do not agree with the district court that this particular state law cause of action turned 'solely' on inequitable conduct." Pet. App. 14a.[3] Such a fact-specific dispute as to the proper characterization of Dow's claim does not, to say the least, involve a legal issue of overriding national importance.

Exxon's argument ultimately collapses into the untenable proposition that a state-law cause of action is preempted whenever it involves the validity or enforceability of a patent. That proposition has been consistently and emphatically rejected by this Court and others for more than a century. *See, e.g., Pratt v. Paris Gaslight & Coke Co.*, 168 U.S. 255, 260 (1897) (noting the "overwhelming weight of authority" holding that state courts can adjudicate patent validity issues as part of state-law claims); *American Well Works Co. v. Layne & Bowler Co.*, 241 U.S. 257, 259-60 (1916) (Holmes, J.) (holding that a state-law tortious interference claim based on a threat to sue for patent infringement can be adjudicated by a state court even though it raises a patent validity issue); *Jacobs Wind Elec. Co. v. Florida Dep't of Transp.*, 919 F.2d 726, 728 (Fed. Cir. 1990) ("[T]here is no limitation on the ability of a state court to decide the question of validity when properly raised in a state court proceeding."). There is simply no conflict between federal and state law where (as here) an issue of inequitable

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[3] The dissent below, in contrast, agreed with the District Court. *See, e.g.*, Pet. App. 22a (Lourie, J., dissenting) (characterizing Dow's claim as "essentially an inequitable conduct claim"); *id.* (Dow's claim "essentially bottomed on the assertion that the patentee engaged in inequitable conduct in the Patent and Trademark Office"); *id.* at 23a ("The state law claim here is premised on an assertion of inequitable conduct in the procurement of Exxon's patent."); *id.* at 24a (Dow's claim "based essentially on an assertion of inequitable conduct"); *id.* at 25a ("The state law claim in this case is simply a proxy for the defense of inequitable conduct."); *id.* at 43a ("A state law claim for unfair competition that is based essentially on inequitable conduct in the Patent and Trademark Office is preempted by federal law.").

conduct in the PTO arises merely as an element of proof in a state-law unfair competition claim.

B. The Federal Circuit's Decision Does Not Conflict with *Walker Process*.

Exxon next asserts that the decision below is at odds with this Court's decision in *Walker Process Equip., Inc. v. Food Mach. & Chem. Corp.*, 382 U.S. 172 (1965). *See* Pet. 13-16. According to Exxon, *Walker Process* stands for the broad proposition that the federal patent laws do not allow any damages action that alleges inequitable conduct, as opposed to fraud, in the PTO. That argument fails for three reasons.

First, Exxon waived the argument below by failing to raise it until the petition for rehearing. *See, e.g., Pentax Corp. v. Robison*, 135 F.3d 760, 762 (Fed. Cir. 1998). In its merits briefs before the panel, Exxon's only reference to *Walker Process* came in a footnote purporting to *distinguish* that case as "a significant departure from the use of inequitable conduct as a defense." Brief for Defendants-Cross Appellants 23 (8/18/97). Nowhere did Exxon remotely put the Federal Circuit on notice of an argument that *Walker Process* governed this case on the ground that Dow did not specifically plead fraud in the PTO. It thus comes with ill grace for Exxon now to chastise the Federal Circuit for "simply ignor[ing] *Walker Process*." Pet. 19.

Second, it is hardly surprising that the Federal Circuit "ignored" *Walker Process*, because that case in no way supports Exxon's theory of preemption. The question in *Walker Process* was "whether the maintenance and enforcement of a patent obtained by fraud on the Patent Office may be the basis of an action under § 2 of the Sherman Act, and therefore subject to a treble damage claim by an injured party under § 4 of the Clayton Act." 382 U.S. at 173. This Court answered that question in the affirmative, holding that antitrust liability could be imposed for monopolistic actions taken with respect to a patent obtained by fraud. *Id.* at 176-78. In a concurring opinion, Justice Harlan underscored the limited

nature of the Court's holding, noting that the Court had not authorized the imposition of antitrust liability for "monopolies practiced under patents that for one reason or another may turn out to be voidable under one or more of the numerous technicalities attending the issuance of a patent" short of deliberate fraud. *Id.* at 180 (concurring opinion). Nowhere did either the majority or Justice Harlan so much as hint that state unfair-competition claims that in any way involved inequitable conduct (as opposed to fraud) in the PTO would be preempted. Indeed, *Walker Process* did not involve any issue of preemption at all, but rather "a suitable accommodation . . . between the differing policies of the patent and antitrust laws." 382 U.S. at 179 (Harlan, J., concurring).

Third, Exxon's reliance on *Walker Process* is futile even on its own terms because Dow's complaint *does* allege that Exxon engaged in fraudulent misconduct in the PTO. *See* App. 8a-10a (alleging that Exxon "knowingly withheld . . . information from the PTO" and "acted with an intent to deceive the PTO"). Exxon's argument is entirely semantic: the complaint uses the term "inequitable conduct," but not "fraud." App. 8a. The particular label attached to Dow's allegation of intentional deceit, however, is immaterial. Fraud and inequitable conduct are not mutually exclusive concepts. *See, e.g., Korody-Colyer Corp. v. General Motors Corp.*, 828 F.2d 1572, 1578 (Fed. Cir. 1987). To the contrary, fraud is a *form* of inequitable conduct. *See, e.g., J.P. Stevens & Co. v. Lex Tex Ltd.*, 747 F.2d 1553, 1559-61 (Fed. Cir. 1984), *cert. denied*, 474 U.S. 822 (1985). Because Dow's complaint alleges intentional wrongdoing before the PTO, it satisfies even Exxon's ambitious interpretation of *Walker Process*.

C. The Federal Circuit Merely Confirmed the Validity of a Traditional Common-Law Claim.

Exxon's final argument is a naked appeal to policy, not law: Exxon asserts that the decision below "sanctioned a new species of patent-related state law damages litigation," and that the decision must be reversed to prevent a "radical expansion

of patent-related litigation." Pet. 7, 19. As an initial matter, of course, that argument is misdirected: the proper forum for such policy arguments is Congress, not the courts.

In any event, the argument is plain wrong. The common law of unfair competition (including the specific tort of intentional interference with contractual relations) has "ancient origins" that long predate the federal patent laws (indeed, that long predate the arrival of the Pilgrims at Plymouth Rock). Pet. App. 18a. Thus, as the Federal Circuit explained, the decision in this case breaks no new ground. To the contrary, it is Exxon's aggressive approach to patent preemption that would upset traditional understandings. "[F]ar from creating a new cause of action, we are merely not intervening to restrict a well-established state cause of action." Pet. App. 19a. Over eighty years ago, this Court (per Justice Oliver Wendell Holmes, Jr.) expressly upheld the authority of state courts to adjudicate state-law claims "for damages to business caused by a threat to sue under the patent." *American Well Works*, 241 U.S. at 259-60.

The patent laws thus supplement, rather than supplant, the common law of unfair competition. "Unfair competition law and patent law have long existed as distinct and independent bodies of law, each with different origins and each protecting different rights. The law of unfair competition generally protects consumers and competitors from deceptive or unethical conduct in commerce. Patent law, on the other hand, protects a patent owner from the unauthorized use by others of the patented invention, irrespective of whether deception or unfairness exists." *Mars Inc. v. Kabushiki-Kaisha Nippon Conlux*, 24 F.3d 1368, 1373 (Fed. Cir. 1994); *see also Lear*, 395 U.S. at 668 (noting the "radically different concerns of the two different worlds of contract and patent"); *Hunter Douglas*, 1998 WL 481072, at *16 ("[S]tate unfair competition law regulates conduct in a different field from federal patent law.").

What Exxon seeks here, in other words, is nothing less than absolute immunity for its commercial misconduct. As the

Federal Circuit has emphasized, the patent laws neither protect nor remedy marketplace misconduct relating to the bad faith enforcement of a patent. *See* Pet. App. 13a-16a; *Hunter Douglas*, 1998 WL 481072, at *19; *Pro-Mold & Tool Co. v. Great Lakes Plastics, Inc.*, 75 F.3d 1568, 1575 (Fed. Cir. 1996). If state laws remedying such misconduct were deemed preempted by virtue of some perceived "conflict" with the patent laws, then *no law whatsoever* would address such misconduct.

This case dramatically illustrates the practical dangers of creating such a legal no man's land. Exxon inflicted significant injury upon Dow by threatening its actual and prospective customers with frivolous patent infringement litigation. After this lawsuit was filed and discovery was conducted, Exxon filed a "Statement of Nonliability" implicitly acknowledging the frivolity of those threats by giving Dow and its customers full immunity from any such litigation. Although Exxon thereby managed to avoid adjudication of the enforceability of its patent, it did nothing to redress the commercial injuries inflicted upon Dow. If the patent laws preempted any such redress under the common law, there would be no deterrent to the bad faith enforcement of an unenforceable or invalid patent. A defendant could always escape liability by simply filing a "Statement of Nonliability" providing assurances of proper conduct in the future but no recompense for misconduct in the past. The patent laws neither require nor tolerate that result. "It is as important to the public that competition should not be repressed by worthless patents, as that the patentee of a really valuable invention should be protected in his monopoly." *Pope Mfg. Co. v. Gormully*, 144 U.S. 224, 234 (1892).

It is ironic, indeed, for Exxon to insist that policy considerations favor preemption in this case. By refusing to defend the enforceability of its patent, Exxon abandoned any pretense that it had acted properly by threatening Dow's customers with infringement litigation. Because its patent is not enforceable, Exxon is now in a curious position to invoke

the protection of the patent laws. To the extent that any policy consideration is relevant here at all, it is the common-sense policy that a tortfeasor should not be allowed to get off scot-free for the injuries it has inflicted.

CONCLUSION

For the foregoing reasons, the petition for a writ of *certiorari* should be denied.

Respectfully submitted,

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IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF DELAWARE

THE DOW CHEMICAL COMPANY,

Plaintiff,

v.

EXXON CHEMICAL PATENTS, INC. and
EXXON CORPORATION,

Defendants.

Civil Action No. 94-572-SLR

SECOND AMENDED COMPLAINT

Plaintiff, The Dow Chemical Company ("Dow"), by its undersigned attorneys, complains of defendants Exxon Chemical Patents, Inc. ("Exxon Patents") and Exxon Corporation ("Exxon Corp.") and alleges as follows:

1. This Complaint comprises two counts.

2. Count I is for a declaratory judgment that United States Patent No. 5,246,783 ("the '783 patent"), entitled "Electrical Devices Comprising Polymeric Insulating or Semiconducting Members," is not infringed by Dow or its customers, and that the '783 patent is invalid and unenforceable.

3. Count II is for unfair competition by defendant Exxon Corp., including tortious interference with contracts of Dow and prospective contractual relationships of Dow.

A. Jurisdiction and Venue

4. Jurisdiction for Count I arises under 28 U.S.C. §§2201, et seq. and 28 U.S.C. §§1331 and 1338.

5. Jurisdiction for Count II arises under 28 U.S.C. §§1332, 1338(b) and 1367 and under the doctrine of pendent jurisdiction.

6. Venue is proper in this Court pursuant to 28 U.S.C. §1391.

B. The Parties

7. Dow is a corporation organized and existing under the laws of the state of Delaware, with its principal place of business in the state of Michigan.

8. On information and belief, defendant Exxon Patents is a corporation organized and existing under the laws of the state of Delaware, with its principal place of business in the state of New Jersey.

9. On information and belief, defendant Exxon Corp. is a corporation organized and existing under the laws of the state of New Jersey, with its principal place of business in the state of New Jersey. On information and belief, Exxon Corp. carries on a continuous and systematic part of its general business within the state of Delaware.

C. Background

10. Dow makes solid polymers sold under the tradename ENGAGE™ polyolefin elastomers. Dow sells those polymers to others throughout the United States.

11. Dow's customers use ENGAGE polymers to fashion or mold various end products. Certain Dow customers have used Dow's ENGAGE polymers to make wire and cable devices.

12. Dow sells specific grades of ENGAGE polymers which are intended for one end use, namely, the making of wire and cable devices. Dow encourages and provides technical assistance to its customers and potential customers in using Dow's ENGAGE polymers to make wire and cable devices.

13. On information and belief, at least one of Dow's customer has commercially manufactured and sold wire and cable devices made from Dow's ENGAGE polymers in the United States. Specifically, General Cable Corporation has manufactured in plant operations wire and cable devices, namely portable cords, in commercial quantities in the United States in 1995. The portable cords are made from Dow's ENGAGE CL 8001. General Cable continues to so manufacture these wire and cable devices in commercial quantities. General Cable has sold commercial quantities of such portable cords in the market in 1995.

14. Exxon Corp. is engaged in the manufacture and sale of polymers for use in making wire and cable devices. Dow and Exxon Corp. are direct competitors in that business.

15. On information and belief, on or about September 21, 1993, the '783 patent was issued to Exxon Patents as the assignee of Lawrence Spenadel, Monica Hendewerk, and Aspy Mehta. On information and belief, defendant Exxon Patents is a wholly owned subsidiary of defendant Exxon Corp. A copy of the '783 patent is attached hereto as Exhibit 1.

16. On December 15, 1993, Exxon Corp. sent a letter to Dow, regarding the issuance of the '783 patent. Exxon Corp. recommended that Dow advise its wire and cable customers of the existence of the '783 patent. A copy of Exxon Corp.'s December 15, 1993 letter is attached hereto as Exhibit 2.

17. On information and belief, on or about December 21, 1993, Exxon Corp., through its Exxon Chemical Company division, sent a first letter to customers in the wire and cable industry to announce the issuance of the '783 patent. In that first letter, Exxon Corp. contended that the '783 patent covered

wire and cable devices made from a wide range of polymers. Exxon Corp. also provided the recipients with a copy of the '783 patent. A copy of Exxon Corp.'s December 21, 1993 letter is attached hereto as Exhibit 3.

18. On information or belief, on or about February 10, 1994, Exxon Corp. sent a second letter to customers in the wire and cable industry. Although Exxon Corp. did not specifically name Dow's ENGAGE polymers in the second letter, it made other specific references which were sufficient to identify Dow's ENGAGE polymers. Furthermore, in that same letter, Exxon Corp. advised customers that the '783 patent covered wire and cable devices made from polymers having at least one particular property which is possessed by Dow's ENGAGE polymers. A copy of Exxon Corp.'s February 10, 1994 letter is attached hereto as Exhibit 4.

19. On information and belief, Exxon Corp. had at least one face-to-face meeting with General Cable Corporation, a customer of Dow. On information and belief, during that meeting, Exxon Corp. expressed its opinion that the use of Dow's ENGAGE polymers to make wire and cable devices would constitute an infringement of the '783 patent. On information and belief, during that meeting, Exxon Corp. also expressed its intent to enforce the '783 patent to prevent General Cable's use of Dow's ENGAGE polymers in wire and cable devices. Based on the February 1994 letter and the face-to-face meeting with General Cable, General Cable became apprehensive of a lawsuit. General Cable has requested an indemnification from Dow specifically with respect to the '783 patent. General Cable continues to be apprehensive of a lawsuit by Exxon Corp. which would adversely impact its supply of Dow ENGAGE polymers.

20. On information and belief, Exxon Corp. also had at least one face-to-face meeting with Dow's customer BICC Cable Corporation. At that meeting, Exxon alleged that it would be a potential infringement of the '783 patent based on the use of Dow's ENGAGE polymers to make wire and cable

devices. Based on the February 1994 letter and the face-to-face meeting, BICC became apprehensive of a lawsuit by Exxon Corp. if BICC proceeded to use Dow's ENGAGE polymers. BICC thereafter requested an indemnification from Dow specifically with respect to the '783 patent. BICC continues to be apprehensive of a lawsuit against BICC or Dow which could result in an injunction against BICC's use of Dow's ENGAGE polymer. BICC has requested an indemnification which would preclude an injunction from preventing BICC from using Dow's ENGAGE polymer.

21. On information and belief, Exxon Corp. also had face-to-face meetings with Triangle Wire and Cable ("Triangle"), another one of Dow's customers in the wire and cable industry. On information and belief, in at least one of those meetings with Triangle, Exxon Corp. expressed its opinion that use of Dow's ENGAGE polymers to make wire and cable devices would constitute an infringement of the '783 patent. Exxon Corp. also expressed its intent to enforce the '783 patent against either Dow or Dow's customers to prevent the use of Dow's ENGAGE polymers to make wire and cable devices. Based on the acts of Exxon Corp., Triangle became apprehensive of lawsuit and requested an indemnification from Dow specifically with respect to the '783 patent.

22. On information and belief, Exxon Corp. also had a face-to-face meeting with American Insulated Wire ("AIW"), another one of Dow's customer in the wire and cable industry. On information and belief, Exxon Corp. expressed its opinion that the use of Dow's ENGAGE polymers to make wire and cable devices would constitute an infringement of the '783 patent. On information and belief, Exxon Corp. also expressed its view that the '783 patent precluded AIW from using Dow's ENGAGE polymers to make wire and cable devices. Based on the February 1994 letter of Exxon Corp. and Exxon Corp.'s face-to-face meeting, AIW became apprehensive of a lawsuit. AIW thereafter requested an indemnification from Dow specifically with respect to the '783 patent.

23. Based on Dow's knowledge of the acts of Exxon Corp., including Exxon Corp.'s letters, Exxon Corp.'s face-to-face meetings with Dow's customers, the resulting requests for indemnifications, and Exxon Corp.'s statements to Dow, Dow has a current apprehension of a lawsuit from Exxon. This apprehension is increased based on General Cable's commercialization of wire and cable devices made from Dow's ENGAGE CL 8001.

24. On information and belief, at least one of Dow's customers specifically requested that Exxon Corp. provide that customer with license terms for the '783 patent. On information and belief, Exxon Corp's representative would not provide that customer with any proposed license terms. Exxon Corp's acts caused that customer and Dow to believe that Exxon Corp. would not license others under the '783 patent, but instead chose to exclude others from practicing the alleged invention of the '783 patent.

25. Dow had actual contractual relationships with customers in the wire and cable industry in the United States to supply ENGAGE polymers to those customers. On information and belief, Exxon Corp. intended to prevent Dow's wire and cable customers from proceeding under those contracts by sending the aforementioned letters and conducting the aforementioned meetings.

26. Dow had prospective contractual relationships with other customers in the wire and cable industry in the United States for the purchase of ENGAGE polymers. On information and belief, Exxon Corp. intended to prevent such customers from entering into contracts to purchase Dow's ENGAGE polymers to make wire and cable devices. Exxon Corp. did not have a right to commit such acts, and Dow has suffered actual damages as a result of such conduct.

27. On information and belief, Exxon Corp. has made representations to customers in the wire and cable industry that Dow has abandoned its composition of matter patents, U.S.

Patent Nos. 5,272,236 and 5,278,272. Those composition of matter patents cover among other things Dow's ENGAGE polymers, which are sold to wire and cable customers. On information and belief, Exxon Corp. knew that its representations regarding Dow's patents were false. On information and belief, Exxon Corp. made these misrepresentations to induce customers to not purchase Dow's ENGAGE polymers.

COUNT I: Declaratory Judgment

28. Paragraphs 1 through 4 and 6 through 27 are incorporated herein by reference.

29. On information and belief, the '783 patent is assigned to Exxon Patents. On information and belief, defendant Exxon Corp. owns and controls Exxon Patents.

30. Exxon Corp. has engaged in activities causing Dow to believe that it will face suit by defendants for direct patent infringement and/or inducement of infringement of the '783 patent if Dow's existing customers continue making wire and cable devices using Dow's ENGAGE polymers.

31. Exxon Corp. has engaged in activities causing Dow, Dow's actual customers, and Dow's prospective customers to believe that one or more of them will face suit for infringement of the '783 patent by defendants if Dow's customers proceed with increased use of Dow's ENGAGE polymers to make wire and cable devices.

32. Exxon Corp. has claimed that the commercial manufacture of wire and cable devices using Dow's ENGAGE polymers infringes the '783 patent and that the claims of such patent are not invalid. Thus, an actual controversy within the meaning of 28 U.S.C. §§2201, et seq. exists between Dow and defendants with respect to the validity, enforceability, and infringement of the '783 patent.

33. The manufacture, use, or sale of wire and cable made from Dow's ENGAGE polymers does not constitute an infringement of any claim of the '783 patent.

34. All claims of the '783 patent are invalid for failure to comply with the United States patent laws. More specifically, the claims of the '783 patent are anticipated under 35 U.S.C. §102; the subject matter of the claims of the '783 patent would have been obvious to a person of ordinary skill in the art and therefore the claims of the '783 patent are invalid under 35 U.S.C. §103; and the '783 patent and its claims fail to comply with 35 U.S.C. §112.

35. All the claims of the '783 patent are unenforceable by virtue of Exxon's inequitable conduct before the Patent & Trademark Office ("PTO") during the prosecution of the '783 patent. Specifically, Exxon committed the following acts of inequitable conduct, any one of which causes the '783 patent to be unenforceable:

a. Exxon, the inventors and their attorneys acted with an intent to deceive the PTO by failing to disclose material prior art to the PTO. In particular, Exxon represented to the PTO that the claimed invention included the use of its commercial EXACT polymers in a wire and cable device and that such devices distinguished over the prior art devices based on the nature of the polymer. However, prior to the filing date of the application for the '783 patent, one or more of the inventors and, on information and belief, their attorneys, knew that prior art polymers sold by Mitsui under the tradename TAFMER were structurally identical to Exxon's EXACT polymers in all relevant aspects and also knew that the prior art TAFMER polymers met all the polymeric limitations of Exxon's independent claims, including the claimed narrow composition distribution. One or more of the inventors and, on information and belief, their attorneys, further knew that the prior art TAFMER polymers were previously disclosed to be useful for wire and cable applications. This information would have been material to the PTO's examination of the claims. However,

Exxon, the inventors and their attorneys knowingly withheld the information from the PTO. On information and belief, Exxon, the inventors and their attorneys acted with an intent to deceive the PTO.

b. Exxon, the inventors and their attorneys argued before the PTO that the wire and cable devices claimed in the '783 patent were novel and non-obvious based on unexpected improved properties, namely, reduced treeing without the need of a treeing inhibitor. However, one or more of the inventors and, on information and belief, their attorneys, knew that the prior art TAFMER polymers possessed the claimed reduced treeing without the need of a treeing inhibitor, as shown by actual tests conducted by Exxon before the filing date of the application for the '783 patent. One or more of the inventors and, on information and belief, their attorneys, also knew that the prior art TAFMER polymers met the narrow composition distribution limitation of Exxon's claims. Exxon, the inventors and their attorneys knowingly withheld this information from the PTO. This information would have been material to the PTO's examination of the claims. On information and belief, Exxon, the inventors and their attorneys acted with an intent to deceive the PTO.

c. Exxon failed to disclose material information to the PTO regarding prior art ethylene-propylene copolymers, including the VISTALON polymers which Exxon sold extensively for use in wire and cable applications. Exxon, the inventors and their attorneys argued before the PTO that the wire and cable devices claimed in the '783 patent were novel and non-obvious based on unexpected improved properties, namely, reduced treeing without the need of a treeing inhibitor. However, one or more of the inventors and, on information and belief, their attorneys, knew that the prior art ethylene propylene copolymers, including specifically the VISTALON polymers, possessed the claimed reduced treeing without the need of a treeing inhibitor, as shown by actual tests conducted by Exxon. On information and belief, one or more of the inventors and

their attorneys also knew that the prior art VISTALON polymers met the narrow composition distribution limitation of Exxon's claims. Exxon, the inventors and their attorneys knowingly withheld this information from the PTO. This information would have been material to the PTO's examination of the claims. On information and belief, Exxon, the inventors and their attorneys acted with an intent to deceive the PTO.

COUNT II: Unfair Competition

36. Paragraphs 1 through 3, 5 through 7, 9 through 27, and 29 through 35 are incorporated herein by reference.

37. On information and belief, when Exxon Corp. carried out the acts described above, Exxon Corp. knew the nature of Dow's relations with customers in the wire and cable industry. Exxon Corp. also knew that Dow's sale of ENGAGE polymers to those customers could cause Exxon Corp. to lose existing and potential business, particularly the loss of sales of polymers which its sells under the tradename VISTALON.

38. Dow had actual contracts with some wire and cable customers to purchase ENGAGE polymers. Dow also had the probability of obtaining additional contracts with other customers to purchase ENGAGE polymers for making wire and cable devices.

39. Several of Dow's actual and prospective customers have informed Dow that due to the threat of a patent infringement suit from Exxon Corp., those customers would not proceed with purchasing Dow's ENGAGE polymers or proceed with evaluating Dow's ENGAGE polymers for use in wire and cable devices. Other customers significantly delayed conversion to Dow's ENGAGE polymers, thereby causing Dow to lose substantial sales due to acts of Exxon Corp.

40. On information and belief, the intent of Exxon Corp. with respect to the above-mentioned communications was to prevent the customers from entering into contracts with Dow, or to induce breaches and delays with respect to contracts with

Dow. Exxon Corp. had no right to commit such acts and Dow has suffered actual pecuniary damages well in excess of $50,000 as a direct result of Exxon Corp.'s conduct. Exxon Corp. has directly profited as a result.

41. On information and belief, a motive of Exxon Corp. behind the above-mentioned communications was to avoid the potential loss of its VISTALON polymer sales.

42. On information and belief, Exxon Corp.'s allegations of patent infringement were not made in good faith. Exxon Corp. should have known that the use of Dow's ENGAGE polymers to make wire and cable devices does not infringe any valid and enforceable claim of the '783 patent. On information and belief, Exxon Corp. actually knew that the use of Dow's ENGAGE polymers to make wire and cable devices in no way infringes any valid and enforceable claims of the '783 patent.

WHEREFORE, Plaintiff requests that this Court:

A. Adjudge that all claims of United States Patent No. 5,246,783 are invalid and unenforceable;

B. Adjudge that Exxon committed inequitable conduct by failing to disclose TAFMER prior art to the Patent and Trademark Office during prosecution of patent claims reciting polymers having a narrow composition distribution;

C. Adjudge that the manufacture, sale or use of wire and cable devices made from Dow's ENGAGE polymers does not infringe any valid claim of United States Patent No. 5,246,783;

D. Permanently enjoin and restrain defendants and their agents from asserting that the use of Dow's ENGAGE polymers to make wire and cable devices infringes United States Patent No. 5,246,783;

E. Declare this action to be an exceptional case and award plaintiff its attorney fees under 35 U.S.C. §285;

F. Declare that Exxon Corp. unfairly interfered with Dow's actual and prospective contractual relations and award Dow its actual damages;

G. Declare that Exxon Corp.'s interference with Dow's actual and prospective contractual relations was intentional and award Dow punitive damages in an amount sufficient to deter such conduct by Exxon Corp. in the future; and

H. Grant such other relief as the Court may deem just and appropriate.

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IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF DELAWARE

THE DOW CHEMICAL COMPANY,

Plaintiff,

v.

EXXON CHEMICAL PATENTS, INC. and
EXXON CORPORATION,

Defendants.

Civil Action No. 94-572-SLR

DEFENDANTS' MODIFIED
STATEMENT OF NONLIABILITY

Exxon Chemical Patents, Inc. and Exxon Corporation (collectively "Exxon") hereby unconditionally covenant, promise, and agree on behalf of themselves and their successors-in-interest not to sue The Dow Chemical Company ("Dow") or any wire and cable compounder or manufacturer which Dow indemnifies against infringement of U.S. Patent No. 5,246,783, for infringement of any claim of U.S. Patent No. 5,246,783 based upon (1) any past, current or future polymer composition containing an ENGAGE™ and/or Nordel™ IP product, alone or blended with other materials, or (2) any past, current or future wire and cable device that incorporates any polymer composition containing an ENGAGE™ and/or Nordel™ IP product, alone or blended with other materials. For purposes of this Statement of Nonliability,

ENGAGE™ is defined as any copolymer of ethylene and octene that is made using INSITE™ technology, whether sold under the tradename ENGAGE™ or under some other trade name, and Nordel™ IP is defined as any terpolymer of ethylene, propylene, and ethylidene norbornene that is made using INSITE™ technology, whether sold under the tradename Nordel™ IP or under some other trade name.